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STATE MONOPOLY CONTROL OF FOREIGN TRADE IN THE USSR: EXPERIENCE AND CONCLUSIONS OF INTEREST TO DEVELOPING COUNTRIES (as illustrated in the import of machinery and equipment under commercial and economic agreements with Western countries) *

prepared by

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INTRODUCTION

The Marxist-Leninist economics attests the foreign economic relations, including machinery imports, as a major factor of the economic growth and its efficiency. Therefore, although the Soviet Union from the very beginning has relyed merely on its own national recources, we realize, as the General Secretary of the Central Committee of the CPSU and the USSR President L.I.Brezhnev said, that "a specific feature of our times is the growing utilization of the international division of labour for the development of each country, regardless of its wealth and economic level. Like other countries, we strive to use the advantages of foreign economic relations to utilise additional possibilities for the successful fulfilment of economic tasks and saving time, for enhancing production efficiency and speeding up scientific and technical progress".[1)]

NOwadays our country has the huge R&D and industrial capacities, including machine-building industries, and plays a large exporter of the equipment, particulary to the socialist and developing countries. Nevertheless, she does import the foreign machinery, including for complete plants, if and when these are of new or unic technology, may supplement the domestic technological and modernization efforts or allow economize the time and production costs and our import plans take duly into account the technological innovations newly-emerging abroad.

To be more specific, the purchases of machinery and equpment from abroad have amounted during the postwar years about Rbs 75,2 billion and always were the main item on the Soviet import list. During the IX five-year plan only (1971-1975) we have imported these for Rbs 29 billion, that has been enough to equip about 2000

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1) L.I.Brezhnev. Report of the CPSU Central Committee and the Immediate Tasks of the Party in Home and Foreign Plicy. The XXVth Congress of the CPSU. Moscow. 1976. p.67.

entreprises in various sectors of our economy. The share of imports in the USSR newly installed equipment attained 1/6 in 1971-1975 and is about 16-18% during the first years of the X five-year plan. In particular , this is the most noticeable in iron and steel, automative, chemical, oil-refining, paper, food, light industries, in merchant fleet, railroad transport and agrobusiness (see table N1 in the Annex).

The principal sources of the Soviet machinery imports are the Socialist countries - members of the CMEA. Nevertheless, with our foreign trade growing and under the climate of detente, about 1/3 of these imports is originated recently from the developed market economies. This is why the Soviet end-users and foreign trade organisations (the FTO's) have already gained the large body of experience as how to manage the purchases from this area and to defend their interests herein. Such "know-how" make us able to improve our import planning and negotiating technique further on. At the same time, these may apparently be of an international significance, particulary for the developing countries, which, being also the major importers of machinery and equipment from the West, have not yet enough bargaining power and consequently are fighting for a restructuring the international economic relations on a fair and democratic basis.

Therefore, the main purpose of this study, prepared on the request of the UNIDO Secretariat, is to gather and to analyse the Soviet experience concerned with the particular emphasis to the interests of the developing countries.

CHAPTER ONE

THE SOVIET MACHINERY IMPORT FROM THE WEST: DYNAMICS AND FEATURES

The Soviet economy is developed primarely on the basis of the domestic hardware supply and the indigenous technology. For example, during theIXfive-year plan our production capacities were englarged by 1,5 times and within the X plan now under way (1976-1980) we intend to double the machinery output, particulary in tools, instruments and electronics sectors, to launch the long-term modernization programmes in energy and iron and steel industries and in the machine-building itself. Many our research-intensive products have gained a good reputation throughout the world market and therefore the Soviet machinery exports from 1955 to 1978 has grown by 11,7% annually. By other words (and taking into account the deliveries from the socialist countries the Western equipment is not necessrelly of a primery importance for us and, macroeconomically, plays rather a supplementary role in our development process. However, even as such, it, subjet to a professionally managed procurement, may provide the Soviet economy with some tangible hardware and software inputs, particularly in certain individual industries or upon implementation of national and regional programmes.

1. Western inputs in the Soviet technological modernization.

Specifically, these imports play for the Soviet economy a window to world technological innovations and are used with a view to modernize the domestic enterprises, to set up new production lines and to strengthen our own export sector. As the experience shows, the cumulative effect from the installing of the imported machinery is, subject to their proper selection, representative

enough both in terms of productivity and production costs. For example, the purchase and commisionning a number of the carbamide and ammonia producing installations of the unic single capacity permit to reduce the production costs by half and to increase the productivity by several times in a comparison with the previous level. In Kama heavy truck plant the imported equipment allows to improve productivity in some individual operations by 15-100%. The development stage in the USSR normally takes about 40-50% of the time and 60-65% of the money spent and this is why some licencies bought abroad were resulted in the economic effect tenfold more that the purchasing price paid. Nowadays, a growing part of the foreign machinery and equipment is channelled in to a modernisation of the existing enterprises, that also produces an investment saving of 8-25% in a comparison with a new construction. As an illustration, the modernisation of Moscow auto plant "AZLK" (producing "Moskvich" cars) with the cooperation of French "Renault" has allowed to double its production capacities.

As far as new production lines are concerned, the foreign technology was one of the important factors in the USSR taking the position of the major world producer of the mineral fertilizers. The machinery imports for auto plans in Togliatti, Moscow and Izheva has made our auto industry able to fulfill successfully the targets, set up by the IX five-year plan, namely to increase the Soviet car production by 3,5 times during five years. The foreign technological inputs were noticeable also upon the introducing some new models of tractors (particulary "T-150", "T-330", "Kirovez-701"), generators and steam turbines up to 1,2 million Kwt, large-dimension and miniaturized bearings, in the production of polyester and polyacrilic fibers, stirole, polyethilene, paper, cardboard, phosphoric fertilizers, large-diameter pipes, in the processing coffee and

cocoa-beans, the assembling the unic rolling mills "3600" and "450" e.t.c.

There are no export-oriented enclaves in the Soviet economy and the bulk of any product is marketed domestically. Nevertheless, the imported equipment is in use to enlarge and to improve our export sector too, especially bearing in mind that in the USSR the export proceeds are the only item of the foreign income and, therefore, the sole source to keep our balance of payments in equilibrium. Consequently, the XXV CPSU Congress has launched the large development programme for our export sector, particullarly through the allocating more investment for a modernization of the exports producing enterprises and a setting some extra-capacities in the mining and manufacturing, optionally oriented for export.

For example, in mining a massive import of the pipes and pipeline equipment will permit in 1976-1980 not only to augment the domestic supply in natural gas, but also to sell the same volume of it (about 100 million cub. meters) abroad, including to the Western European countries. As a result, after spending about Rbs. 3 billion for such imports, we now expect to gain (during the span of the long-term contracts in force) the export revenues of Rbs. 25 billion in the mid-70s prices. Similarly, the extra capacities under construction in South Yakutia coal basin will enable us to repay, through exports, the Japanese Rbs.300 million credit concerned and to ensure the additional Rbs. 3 billion proceeds.

In manufacturing this modernization is zeroed at the restructuring the traditional exports list and at an increasing the share of the finished products in the total export. As an illustration, the earnings, gained from the export of "Lada" autos are already adequate

to cover the original import spendings for the auto plant in Togliatti ("VAZ"). In 1978-1980 the USSR shall start the pay-back shipments on the bulk of 40 compensation deals in chemical industry now in force e.t.c.

As to the developing countries interests, such innovations are, in a way, beneficial for them at least twice, since, by expanding our sales counter, these are conducive to our growing engagement in the technical cooperation with Asia, Africa and Latin America and, simultaneously, the western machinery are in use to enlarge our domestic demands for the developing countries exports through equipping the Soviet marketing and processing capacities concerned. Specifically, the aluminium complex under construction in Nikolaev, with hardware and software inputs from French "Pechiney-Ugine-Kuhlmann", is expected to process the Guinean bauxite and two new plants with annual capacity of 60 thous. tons each were erected with some import contents in Kuibyshev and Trostianez to process the cocoa-beans.

Within recent and the next (XIth) five-year plans the Soviet planners envisage the further expansion in import and use of the foreign technology (see also § 1. Ch.2). While doing so, we are determined to achieve the maximum economic effect for our own country and the mutual benefits for our trading partners too, that is to ensure an increment in national incomes for both sides. This intention can be realised, however, only subjet to the equal and fair conditions and a favourable trade policy climate for this mutual trade. The Soviet economic diplomacy has did its best for normalising the regime for East-West trade and eliminating the cold-war remains herein. Regretfully, there are still many problems in this domain, particularly those impeding the trade in machinery.

2.The Soviet experience in ensuring the equal and fair regime for trade.

As the first socialist country, challenging the old economic ord the USSR from the very beginning has been in the unic situation within the world markets, including those of the machinery and equipment. Although the Soviet governments, headed by V.I.Lenin, was positive to the establishing the broad and permanent contacts with foreign business circles, the Western powers were rather cold and hostile towards these initiatives, treating the socialist system of economy and foreign trade as an alien anomaly and thus flatly refusing to deal with us on the normal trade policy and commercial conditions. As a result, during the main part of its history, the USSR has been subjected to political and economic discrimination, which still exist, in their certain aspects, even nowadays.

For exemple, the NATO countries adopted the special list, which prohibits the export to the socialist countries, including the USSR, certain types of the machinery and technology and in the United States this list is supplemented by the system of ad hoc licences for any machinery exports, destinated to the USSR. Specifically in 1978 the US administration prohibited the deliveries to the USSR of many types of oil and gas equipment, including the consignments under the contracts already in force.

These discriminatory regulations are intertwined with credit restrictions. In the United States again, our country since 1974 has been prohibited to use the Eximbank facilities and there is an intention to "unify" the credit terms towards the USSR in all NATO countries, that is on an abnormally high rate and for shortened period.

There are some artificial barriers against the normal activity of the Soviet Representations abroad too. For example, the Soviet Trade Representation in Washington is deprivate from the usual rights

to sigh the commercial contracts. In Japan we cannot yet open the branch of the USSR Trade Representation in Osaka, although the official permission to do so was issued as long ago as in 1957. Due to postponing the regular meetings of the Soviet - Japan commision on economic cooperation, the long-term trade agreement for 1976-1980 between two our countries was signed only in 1977.

In some western countries the USSR is not yet given the most favoured nation treatment, in some - subjected to the additional non-tariff restrictions, that clearly diminishes our export proceeds and thus the import abilities accordingly. New problems in this area creates the yielding by the individual EEC countries some of their national trade policy prerogatives to the EEC Commission. Moreover, the protectionist circles sometimes act in an alliance with antisovie political forces and the discrimination on the governmental level is amplified by the restrictive business practices, pursued by individal transnational corporations or their associations.

As a result, and as a matter of an illustration only, on the contrary to the assessement of the American side in the US-Soviet Trade and Economic Council, believing in the opportunities for the US exports to the USSR to be as much as $ 10 billion annually, the real US machinery export has amounted in 1977 $ 500 million only(that is even less that from, say, Finland) and the new Soviet orders concerned, placed in the United States in 1977, have been twice as less in value than in 1976.

Essentially this very discrimination (to which, in addition to the USSR are subjected also some developing countries such as Cuba, Vietnam, Mongolia, People Democtratic Republic of Korea and Kampuchia) is politically rooted, but it has also evident economic goals, that are to slow down our development pace and to force us to operate within an unfair trade policy environment. This, firstly, proves once

again the very necessity to extend the restructuring the international economic relations upon all flows of the contemporary international trade and, secondly, places the socialist and developing countries on a common ground in their pursuing this restructuring. Therefore, it makes the experience, gained by the USSR in resisting these restrictions and discrimination, of an international interest too.

As early as in the 20's, stressing the truly international character of the economic relations, the Soviet government put forward the programme, aimed at, as V.I.Lenin said, "the restructuring the world on a sound economic basis". Later on the USSR repeatedly suggested before many international fora to legalize in the international trade such principles as the equality, mutual benefits, non-intervention in the internal affairs, the peaceful coexistance and the decolonization, i.e. those, which nowadays reecho with the demands, formulated by the developing nations in their collective documents, calling on the establishing a New International Economic Order. The XXV CPSU Congress has furthered this policy by concentrating on the elimination of the discrimination and any other artificial barriers in the international trade, the liquidation of all manifestations of an unequality, dictate and exploitation in the international economic relations and the Soviet economic diplomacy both in the bilateral scale and within the UN fora - does pursue these goals accordingly.

It is important to stress also, that this very policy and its major instruments are aimed at the ensuring not only a formal, juridical equality for the USSR in the international trade exchange; but also at a steady development of this exchange in the close connection with the USSR economic and social priorities.

Historically, our first foreign trade instruments were the trade (and navigation) treaties of the traditional types, which are

still in force with major trading partners. Setting the general regime for the mutual trade, these regulate the custom treatment, import and export licensing procedure (if any), payments arrangements, the navigation issues, preferences and exemptions, adjustments to th partners involvement in the integration schemes, dispute settlements e.t.c. Accordingly, these provide the Soviet FTO's with an adequate legal basis for both the negotiating and implementing the actual contracts. For example, the long-term trade agreement between the USSR and Sweden stipulates that "both governments will aspire to a steady and continuing growth in mutual trade and pay an adequate attention to the measures aiming at the promoting this trade and diversifying its structure". (art. 2), as well as "will promote the negotiating and concluding the contracts, including long-term ones, between the Soviet foreign trade organisations and Swedish organisations and firms on the normal commercial terms and conditions" (art.3).

One of the key provisions, embodied in the treaties like these, is usually the understanding to establish in the partner country the USSR Trade Representation, that legally means the partners' recognition of the socialist monopoly of the foreign trade, i.e. the mashinery, which the planned economy uses for its external commercial relations. The main functions of these Representations are the market research, business promotion, consulting the FTOs, contacts with the local authorities, concluding contracts, the inspection and acceptance of the goods to be shipped to the USSR, dispute settlements e.t.c. The Representations are staffed by the officials of the Ministry of Foreign Trade (the top management enjoy the diplomatic status), the FTOs officials and the specialists from the industries. Therefore, the Trade Representations play a sort of the foreposts in the protecting

our economic interests and in promoting trade.

Nowadays the USSR Trade Repsentations are open in more than 70 foreign countries and in 32 countries their fuctions are performed by the Offices of the Commercial Councellors within the Soviet embassies. The trade(and navigation) treaties are now in force with more than 100 coutries and in 80 countries on their basis the USSR is given the most favoured nation treatment.

These basic treaties have laid down the legal and structural basis for the long-term trade and economic agreements, which also concluded with all our major trade parters and aimed at the practical development and promotion of the mutual trade. To this and, these coinside, as a rule, with the time-spans of the Soviet five-year plans, contain targets for the mutual trade and other forms of economic relations and are taken into account in the process of foreign trade planning accordingly. For example, these agreements between the USSR and France were concluded for the periods 1966-1970 (the Soviet VIII five-year plan) and 1971-1975 (the IXth) and stipulated both times the doubling the trade turnover. The experience gained made the Contracting Parties able to envisage for the 1975-1979 (the Xth plan) the new increase in the trade turnower by two and, if possible, three times. Specifically, in the framework of this last agreement the Soviet FTO's and French interests have signed the contracts till 197 Rbs 2,1 billion worth particulary on the complete plants for producing spirits, electronic components, fertilizers, on the installations for gas-processing, catalytic reforming e.t.c. Similarly, the Soviet-Japanese agreement for 1971-1975 stipulated the increase in the mutual trade by 55-60% and also was successfully implemented.

The USSR and Finland have more than 25 years experience in the implementing of the treaties like these and the actual mutual trade turnover for 1976-1980 is expected to achieve Rbs 10 billion as

against Rbs 9 billion envisaged initially.

The powerful impetus for a further diversification of the Soviet foreign trade policy instruments has been given by the detente. Under its climate, conducive to the mutual confidence between the States, some advanced business arrangements, previously in use within the CMEA exclusively, have been gradually extended beyond that area and now are under way with developed market economies and developing countries too.

One may find the inventory of these new, advanced forms in the "second busket" of the Helsinki Act, which has opened new avenues for the long-term, large-scale business cooperation between the East and West both on a bilateral and multilateral basis.

In the international legal area all these processes and innovations have been manifested by an emerging the generation of the "umbrella" agreements, namely the long-term agreements on trade, industrial and technological cooperation, signed by the USSR during the 70's with almost all major trade and economic partners. Being typical for the external business relations of the developed socialist economy, these stipulate usually not only a favourable trade regime, but also regulate the issues beyond the scope of the traditional trade, namely specify the industries and subindustries for such cooperation, as well as its principal forms.

As such, these new agreements strengthen further on the bargaining power of the Soviet FTO's by creating for them and for their foreign partners the reliable prospects to do business in a variety of forms, as well as by setting up for that the adequate legal and operational basis, including the framework for the financing and price-setting.

For example, the USSR-FRG agreement on developing and deepening long-term cooperation stipulates that "the Contracting Parties

will, to achieve the aims of the present agreement, exert efforts to offer safequards so that medium and long-term credits are granted within the framework of the rules existing in each State on as favourable terms as possible", the agreements with Greece and Spain - that mutual deliveries will be effected on the basis of current world market prices e.t.c. As to the various fields and forms, the same the USSR-FRG agreement states that "the Contracting Parties will contribute to the further development of cooperation, in particular in the following fields:

- establishment, expansion and modernisation of industrial complexes and enterprises;

- the joint development and production of certain types of equipment and other items;

- extraction and processing of certain types of raw material, including exploitation of the mineral deposits on the seabed;

- the cooperation in the power industry;

- the technical cooperation between related enterprises and organisations;

- the cooperation in banking and insurance, transport and other services". (see Annex 4 to this study).

In their turn, the agreements of this type are implemented through the long-term cooperation programmes, concluded usually for the period ten years and more, which contain the list of the specific sectors and projects for cooperation and, as such, play a sort of the "blueprint" for the subsequent foreign trade planning and actual contracting. These programmes are now force with France, Austria, Great Britain, Finland, Italy, the FRG, Belgium e.t.c; in the US-Soviet relations the similar role is played by the twelve sectoral agreements on technological cooperation and in Soviet-Japanese -

by the set of general agreements on the major complex projets.

For example, the Soviet-Belgium long-term programme stipulates, that it "shall provide the both parties organizations and enterprises with orientires for the practical cooperation", including the negotiating "the long-term contracts on a competitive basis". To this end, it contains the list, enumerating seven sectors for the cooperation in the construction, expansion and modernization of the industrial enterprises, nine sectors for industrial cooperation and 14 industries and 63 subindustries for the technological collaboration. Similarly, the Soviet-Finnish programme, covering the time span till 1990 (i.e. the three consequtive Soviet five-year plans) envisages the growth in the mutual trade turnover from Rbs 9 billion in 1976-1980, to Rbs 12 billion in 1981-1985 and Rbs 14-16 billion in 1986-1990, including the delivery of the Finnish ships amounted Rbs 1,4-1,6 billion in 1981-1985 and Rbs 1,6-1,8 billion in 1986-1990, as well as the participation of the Finnish interests in the construction in the USSR Kostomuksha mining complex and Svetogorsk paper mill. In the context of the Soviet-Italian programme the general ten years agreement between the USSR Ministry of Foreign Trade and Italian "ENI" was signed, envisaging the Soviet purchases of six complete chemica plants on pay-back basis, two gazoline plants and pipeline equipment. At last, 40% of the Japonese machinery exports to the USSR is effected under the general agreements on the development of the Far East forest recources, South Yakutia coal basin, oil and gas exploration on Sakhalin shelf and on the construction of Vostoshny Harbour.

The efforts to protect the legitimate Soviet business interest abroad, undertaken on a bilateral basis, are supplemented by the

appropriate multilateral economic diplomacy, particularly within the United Nations. Herein, the USSR is one of the initiators of the restructuring the international economic relations on a fair and democratic basis and actively collaborates to this end with diplomacy of developing countries. Through their concerted efforts, the United Nations, particularly UNCTAD, adopted such fundamental documents as the General System of Preferences, the Charter of Economic Rights and Duties of States, the Code of Conduct for the Liner Shipping Conferences e.t.c. Similarly, the positions of the USSR and developing countries are close on the drafts of An International Code of Conduct for the Transfer of Technology, a Code of Conduct for Transnational Corporations, on a Set of Rules on Restrictive Business Practice e.t.c. now under elaboration within the UNCTAD and other UN bodies.

It ought to be clearly stressed, however, that whatever important and mighty the diplomacy could be, the very foundations the USSR relies upon in its pursuing the equality and non-discrimination are, first of all, our own developed and diversified economy and the socialist economic integration within the CMEA. These, in fact, make us able to withstand successfully against the individual and collective hostile economic and political actions, originated from the West. In particular, after the ban to export to the socialist countries the modern computers, they have managed, by the concerted efforts, to develop the indigenous technology concerned, embodied in the computers of the "Ryad" family. The US interrupting the export of the gas and oil equipment to the USSR has been to the large extent overcame through the placing the alternative orders in the GDR and Czechoslovakia. "Ford Motor" had refused

to be the general contractor for the Kama heavy truck complex, but the engineering services concerned have been rendered by the Soviet institutes "Giproautoprom" and "Giprodvigatel" and the US equipment - partly replaced by other sources, ingluding domestic ones.

At last, the huge Soviet market, which, moreover, is stable and free from cyclical fluctuations, always generates the keen competition among would-be suppliers. As the bulletin "Business Japan" stated, "with the Japanese industries stagnated, the country just cannot allow itself to neglect the volumneus Soviet orders". On the contrary, the "strategic", credit and other restrictions, imposed in the United States, have resulted in an evident decline in the Soviet purchases and orders, placed in that country, and for the last three years the US corporations have lost Rbs. 3 billion of these orders, which have been reawarded, on a competitive basis, to the Western European and Japanese interests. Speaking in mid-1978 before American businessmen, the Soviet Minister of Chemical Industry Kostandov, in particular, said "Except for one contract with Lummus and Monsanto, none of the other agreements was concluded with US firms, and the equipment is coming from Europe and Japan. If this scheme of cooperation suits you, then we can continue along these lines. But one cannot ignore the fact that with European and Japanese firms, in the chemical field, we have contracts which are worth over $ 3 billion, whereas with you we have less than $ 500 million worth".

By other words, the USSR has managed to set up the relyable combination of the domestic economic strength and the active external economic diplomacy, adequate to deal fearlessly with the western countries and their transnationals and this is why, despite

of some cold war relapses, the process of the normalisation and development in the East-West trade has became nowadays irreversable by both its character and dynamics.

CHAPTER TWO

THE PLANNING AND MANAGEMENT OF THE SOVIET MACHINERY IMPORTS

The foreign economic relations in the USSR are the state monopoly. This means that all business turnover is planned and subjected to the national goals and priorities. Giving the characteristic of the foreign trade planning the USSR President L.I.Brezhnev said: "Our plans are not aimed at an autarky. We are not going to isolate our country from the outside world. On the contrary, we believe, that she shall develop itself under the conditions of a growing and manyfacet cooperation with this world and not only with the socialist countries, but also, to a large extent, with the States of the opposite social system" and this policy determines the Soviet machinery import too.

The monopoly of foreign trade means also, that all transactions with foreign markets are concentrated in the hands of the limited number of the specialized organizations, that are the FTO's, which act as the merchant commisioners under instructions of the Soviet customers and the supervision of the authorised government bodies. Specifically, the Soviet FTO's, dealing with machinery imports, belong to the system of the USSR Ministry of Foreign Trade.

1. The import plans: formulating and implementation

The machinery import to the USSR is effected in the framework of the import programmes, embodied in the foreign trade plans, which, in turn, are an integral part of the national economic plans. These plans are elaborated usually on the five years basis with splitting up into annual parts. The import programmes contain the targets, expressed in the total volume of the import and its structure,

dividided by the geografic and currency areas. For the non-socialist countries these are the clearing settlements and the free currency areas. The general import targets for the each of the area are determined by the expected export proceeds and net inflows of foreign credits. To this end, as the USSR Premier Minister A.N.Kosygin said, "our trade and economic relations will develop faster with those countries, which will show a sincere desire for cooperation and concern to ensure normal and equitable conditions for its development. Only in this case is it possible to maintain really broad and durable economic relations, which will be reflected in our economic plans".[1] Specifically, import plans take into account the USSR declared intentions and committments, contained in our bilateral and multilateral agreements, including long-term programmes on the economic, trade, industrial and technological cooperation and the long-term agreements on the mutual deliveries.

The plans and programmes of imports are worked out by the State Planning Commission (the Gosplan) on the basis of the requests from the industrial ministries and other authorities concerned (the State Committee on Construction, the State Committee on Material and Technical Supply, the State Committee on Science and Technology e.t.c.), as well as the opinions and assessements of the Ministry of Foreign Trade, Ministry of Finance and the Vneshtorgbank. In their final version, these programmes shaped as the lists of the major projects with the approximative individual currency allocations for their "foreign content" to be supplied through import. The major decisions concerning imports are made by the USSR Council of Ministers.

Nevertheless, whatever weight in the import planning all these hig-

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1) A.N.Kosygin. Guidelines for the Development of the National Economy of the USSR for 1976-1980. Moscow, 1976, p. 47.

echelons have, the particular responsibility for the proper selection of the machinery and equipment to be imported belongs to the sectoral industrial ministries, which in the USSR are the main architects of the technological policy in their respective sectors, including the place of the foreign inputs therein. Therefore, these ministries are the most authoritative intercessors for currency allocations before the Gosplan and the Council of Ministers, filing with them the official requests for would- be imports with the basic substantiations attached. In case of the major projects these requests have to specify, inter alia, the following: an expected effect of the project for the national economy; its securing with the internal financing and the material, technological and manpower supply; its sound territorial location; the needs for the interindustry cooperation, including domestic subcontracting; raw material supply; transportation and marketing prospects, as well as contain a review of the foreign markets concerned and the currency appropriations. The particular attention is paid to the technological level of the would be imports and to the guaranties, that the projects will be constructed and commissioned in accordance with the planned schedule.

In general, the system described above permits to achieve both these goals. For example, about 90% licences bought abroad are reduced into practice during one or two years. However, there are facts, when the ministries, being not duly informed, solicit for import of the obsolete machinery, as well as when the imported technology is commissioned with certain delay, what diminishes the economic effects of the transactions concerned. This was the case, for example, at Novoviatsk woodboard factory, commissioned behind the schedule. This is why the management of our foreign trade is under a continuing perfectioning and the special Decree was adopted, in particular, in 1976 by the Central Committee of the CPSU and the Council

of Ministers, ruling the eradication of the mismanagement in this area and addressing the respective orders the governmental bodies concerned.

This Decree urges, inter alia, to improve the foreign trade planning, to severe the responsibilities of the customers for the timely commissioning the imported equipment, to ensure an integral intertwining between the foreign trade and national plans, to exploit in a broader scale the advantages of the international division of labour and to make foreign markets research professionally.

The implementation of these decisions is now under way, including in the context of the X five year plan. On the basis of the sectoral ministries requests (duly processed by the central authorities) this plan allots the priorities in imports in 1976-1980 for pipeline equipment, machineries for the mining, fertilizers, paper, chemical, auto, machine tools industries and, inter alia, for the such major projects as Volgodon heavy machinery plant, Czeboksary industrial tractors plant, Novooskol electrical-mettallurgical complex, Ust-Ilim and Svetogorsk paper mill e.t.c. As far as the links between the foreign trade plans and the international agreements and programmes are concerned, it has been decided, for example, to implement the Soviet-Japanese general agreement on the development of South-Yakutia coal basin through placing in 1975-1981 in Japan the orders on equipment, machinery and technology amounted $ 390 million for the railroad BAM - Tynda - Berkakit, connecting this basin with coastal area. Similarly, in the framework of the Japanese government long-term credit the orders were placed for four ammonia plants $ 245 million worth.

The governmental authority, responsible for the practical management of the import plans in their commercial aspects is the USSR Ministry of foreign trade, nestling within its structure both

supervising (the Central Machinery) and operational (the FTO's) bodies concerned.

The Central Machinery performs mainly supervising, controlling and regulating functions. In the area of the machinery import its main divisions are the Main Department on the Machinery Import from the Capitalist Countries and the Main Department on the Compensation Deals. These take the direct and active part in the formulating the import plans, assess the domestic requests and foreign offers for import, study the terms and conditions in machinery trade, elaborate the model contracts, issue the import licences, cooperate with the Soviet customers e.t.c. In the framework of their specific functions, in the supervision of machinery imports are involved also the Main Legal Department, the Main Currency Department, the Main Engineering Department, as well as the transportation, information and regional departments.

The FTO's, in turn, play the parties to the actual foreign trade transactions, concluded by them in the context of the import programmes and under instructions from customers. The machinery import is performed mainly by 12 specialized FTO's, namely "Avtopromimport", "Licensintorg", "Electronorgtechnica", "Machinoimport", "Mashpriborintorg", "Metallurgimport", "Prommashimport", "Stankoimport", "Texmashimport", "Sudoimport", "Technopromimport", "Vneshstrojimport". Each of them strictly specalized in the particular types of machinery, playing their sole importer in the USSR and thus they do not complete among themselves and do not give the foreign suppliers any chances to make them rivals with the well known trade-off involved.

The FTO's are commercially independent organizations, have their accounts with the Vneshtorgbank and enjoy the rights of the juridical persons. Each FTO is liable for its obligations in that part of its assests, which, under the Soviet legislation in force, is subject to

attachment. The FTOs are not liable for the obligations of the State and vice-versa. They are entaitled to enter any lawful business transactions, including credits, bill of exchange and banking operations, to sue and to be sued in civil courts and courts of arbitration, to aquire, alienate, lend and lease movable and immovabal property, to establish and dissolve their missions, affiliates, branches and agencies, to participate in all kind of associations, whose activities accord their aims e.t.c.

The revenues of the FTOs are formed from the commisions paid by the customers. The FTO has usually the planning, market research, financial, transport and other units, participating in the negotiating and implementing the contracts. However, its principal commercial arms are the business offices, directly operating on foreign markets and dividing among themselves the nomenclature of the products, reserved for this FTO.

This model structure may be illustrated by the case of FTO "Machinoimport", which managed about 20% of the total Soviet machinery purchases abroad. It is divided into ten business offices, daaling respectively with pumps, power supply equipment, handling and transportation machinery, exavators, rolling stock, high voltage equipment, storage installations, armature, electric locomotives and trains and refining equipment. The central personalities within these offices are contracting officers (senior engineers), trading in particular products and making the homework before the negotiations, including draft contracts.

The negotiated contracts are then to be endorsed in main functional units of the FTO and, if necessary, in related departments of the Ministrys' Central machinery and finally signed by the two persons, one of whom should be the FTOs' President or his deputy and the other - a person, authorised to sign foreign trade transactions

by a power of attorney, signed by the President of the FTO. This authority is given quite often to the FTOs'representatives, staffing the USSR Trade Representations abroad. The bills of exchange and other monetary obligations issued should bear the signature of the FTOs'President or that of his deputy and the Chief Accountant (see Annex .6)

In May 1978 the USSR Council of Ministers issued one more Decree, dealing with the restructuring FTOs management and their business status, namely the management reform already implemented in the main sectors of the Soviet economy was extended on the foreign trade area too.In accordance with this Decree, all FTOs are being gradually reorganised into the foreign trade profit-and-loss organizations, directly interested in the results of their commercial performance and managed by the Board of Directors, consisting of the representatives of the foreign trade and the customers' ministries. The FTOs business offices are being divided into the Firms (profit centers), operating on the domestic and foreign markets for their own, entitled to entry transactions independently e.t.c. The part of profits,gained by the FTPLO may be kept under its control in the special reserve funds to be spent for the stimulating personnel, social development and residential construction. The FTPLO may at last be more free in the use of the domestic and foreign credits. The main goal of this reform is to create stimuli for the FTPLO to be a more hard trader and to strengthen its business contacts with the Soviet customers (see Annex 7)

For example, the pioneer in that restructuring - the FTPLO "Stankoimport" is now the umbrella organization for nine firms (profit-centers), emerging on the basis of its previous business offices, namely "Stankorotor", "Stankomodul","Stankofrez","Stanko-

system","Stankoautomat","Stankopress","Stankoinstrument","Stankodetal', "Stankopodshipnik". This FTPLO is now managed by the Board of Directors consisting of the FTPLOs top managers, firms managers and the outside Directors, representing the customers' ministries. The decisions are taken by 75% of votes with not less than 50% foreign trade managers, attending the vote.

In pursuing this reform, we believe to attain a higher efficiency of the foreign trade and its more concerted development in the framework and in the interests of the national plans and priorities.

2. The import decision-making and the negotiating process.

The positive effect for the Soviet economy from the machinery import is secured by the concerted efforts of the customers and FTOs. That effect, as the Soviet Premier-Minister A.N.Kosygin said,"must be an object of constant attention on the part not only the central planning and foreign trade organs, but also of all the other ministrie and departments,which,in taking decisions on matter related to foreign trade,must likewise be quided by criteria of economic efficacy"1/.

Accordingly, on the basis of the foreign trade plans the customers, which usually are the All-Union or Republican industrial ministries or organizations, issue to the FTOs the import orders, containing the basic data for the subsequent commercial actions. These are the titles and quantities of the mashinery concerned, the desired schedule for deliveries and, for complex projects, also the pattern and volume of the technical assistance,engineering and consulting

1/ A.N.Kosygin.Op.cit.,p.45-46.

services required. These orders predetermine the technological details of the forthcoming deals,since the FTOs cannot introduce any changes into the customers specifications without their permissions and are in charge for the commercial.aspects of the deal only, i.e. have to place the given order on the best contractual terms possible. However, as a matter of a clarification, the FTOs, especially while placigg orders for an unic or complex equipment, may ask the customers to reply the special questionnaires with a view to be more profoundly prepared for the negotiating.

After all necessary clarifications,if any, the FTO in charge transforms the order into the formal commercial requests addressed the foreign suppliers, operating on respective markets, and dissemented by post, through the specialized information media or other appropriate channels. The important fora to announce the major requests are the meetings of the bilateral intergovernmental commissions, supervising the implementation of the long-term trade and economic agreements, as well as the Soviet trade missions, travelling abroad. For example, in 1975-1976 the leading British corporations were given the list of the Soviet requests concerning machinery and equipment for iron and steel and fertilizers industries, seaborn drilling platforms, turbocompressors for pipelines e.t.c. In 1978 the Soviet Minister of Chemical Industry Kostandov, visiting the United States, has annonced the intention to buy the titanium duestuffs factory.

The rule of thumb is that the requests ought to be sent to all well known suppliers of the machinery in question with a view to promote the genuine competition among them and, at least, to all corporations with whom the FTO has already had business deals and who have shown themselves as the fair and relyable partners.For

example, FTO' "Machinoimport" consider as its traditional partners such corporations as "Kone" and "Valmet" (Finland), "Nouvo Pignone", "Wa Gi" (Italy), "General Electric", "Cameron", "Byron Jackson" (the USA), "Sumimoto", "Mitsui", "Nichimen", "Mitsubishi" (Japan), "Mannesmann", "Krupp"(the FRG), "Cresout-Loire", "CMF" (France), "Hubner Famag", "Dobias" (Austria), "Camko", "Coberrow" (the United Kingdom) e.t.c.

The requests contain usually the titles of the machinery and equipment in question, their specifications and desired technical characteristics (capacity, productivity, dimensions, energy consumption, weight e.t.c.). Normally, the FTO does not indicate therein any prices, even indicative, it could afford, since the requests are aimed at the collecting competitive bids, and specify sometimes the price-fixing basis and the terms of payments only. In case of the complete equipment, the would-be supplier is invited to make unpackaging, that is to indicate the prices on every position of the machinery and technology concerned separately, as well as to state clearly what set of the technical services it is ready to include into the contract. The requests specify at last the time (the schedule) for deliveries and the deadline for placing the bids.

Taking together, all these bids received are than shaped into the "Competitive list", which is the basic pre-negotiating document to be studied throughfully by the FTO and the customer with a view to single out the most promising offers. Sometimes the customer even prepares the individual "substantions" on every of these selected bids with recomendations with whom the practical negotiations would be worthwhile to start. The same "substantions" have to be prepared in the case, when the project (contract) is initiated by the foreign interests at their own. For example, during the last session of the US-

Soviet Trade and Economic Council (December 1978) the Soviet side was given 28 offers on the projects for cooperation, then transmitted for assessements to the Soviet ministries and authorities concerned. In the case of an unic or complex project the foreign corporations may be invited to place the preliminary bids or even awarded the pre-negotiating paid up demands to present their engineering views on the project concerned. At last, on some new or not well known market, the FTO, while placing orders, may wish to engage the consultants or even the middlemen and in the USA, for example, this is "Ivertex", which have assisted in the negotiating more then 300 contracts between the Soviet FTO's ("Metallurgimport", "Avtopromimport" e.t.c.) and the US interests.

White selecting the specific partners for the actual negotiations from the "Competive list", the FTO's are quided usually by the assesements of their technological achievements, financial positions, business reputation, by the previous experience, as well as by the opinions of the USSR Trade Representations in the respective countries, other Soviet FTO's and the FTO's of other socialist states, which may be invited in the process of the pre-negotiating nomework. The partner may be freely selected within the currecy zone, specified in the import plan or within a given country, if the project in question is specified in the respective bilateral trade and economic agreements and programmes. For example, the Soviet Japanese long-term trade agreement for 1976-1980 stipulated the import of the complete plants for the production of ammonia, fertilizers and syntetic rubber and, consequently, their suppliers were to be selected among Japanese corporations.

With all other terms equal, the FTO's usually give the priority to the partners, who are the most relyable from the technological and financial point of view and who duly performed their previous business obligations before the USSR. Sometimes the preferences are given to

partners engaged in the technological cooperation with the Soviet organizations, particularly, when and if the deal, in fact, is a commercialization of the R&D results achieved. This is why, for example, that the negotiations over the Togliatti auto plant were started with "Fiat" and it is now invited again to participate in the further expansion of that plant.

The aforementioned does in no way imply, however, that the Soviet market is unacséssible for the newcomers or for the small and medium-size firms. The FTO's are obliged in any case to have in the completitive list not less than a certain number of the offers and do not discriminate any bidding corporations. As to the small and medium-size business, the FTO's have several hundreds of such partners in the FRG only. A medium-size Austrian firm "GFM" has already supplied the USSR with 40 forging machines and is awarded with the contract for another 20 till 1980. These firms, at last, may also play subcontractors and , for example, in the delivery to the USSR of five plants and 10 installations, producing ammonia, were engaged about 800 Japanese subcontractors.

The FTO's do not mind to negotiate both with individual corporations or with their consortia, particularly if and when this is justified by the project complexity and does not appear ... as a conspirancy, aimed at overpricing or distorting the fair competition. For example, the British consortium "Coberrow", consisting of "Cooper Bessemer", "Rolls-Royce" and Canadian "Williams International", has won the tender for 42 gas pumps for the Tumen-Cheliabinsk pipeline in the rivarly with the US, Japanese and West German interests. In multisectoral deals the Soviet side may also be represented by a negotiating team and such team, consisting of the officials from FTOs "Sudoimport", "Electronorgtechnika", "Promsyrieimport", "Mashpriborintorg" and "Machinoimport"

negotiated with the Japanese consortium the General agreement on the oil and gas exploration on the Sakhalin shelf.

The actual negotiations, especially over the major projects, are conducted normally on the personal basis and with participation of the Soviet customers, that facilitates the decision-making on the spot. The negotiations may also be attended by the officials, representing the respective departments of the Central Machinery of the Ministry of Foreign Trade. Depending on the circumstances, the FTO may prefer to negotiate with several competitors simultaneously. The bargaining over the large projects is usually very detailed and time-consuming.

The genaral contractual provisions are determined by the respective intergovernmental agreements and trade customs. The basis for their drafting may be also the model contracts and manuals, elaborated by the international organizations, for example the UN Economic Commissinn for Europe, such as "General Conditions for the Supply and Erection of Plant and Machinery for Export and Import", "General Conditions for the Erection of Plant and Machinery Abroad" or "Guide for Use in Drawing up Contracts relating to the International Transfer of Know-How in the Engineering Industry"

Besides, every machinery-importing FTO has a set of model contracts for its own.

These basic provisions cover usually the guaranties, sanctions, force-major provisions, the procedure for the inspection, testing and acceptance, dispute settlement e.t.c. The specific provisions, constituting the hard core for the negotiations, are the titles and specifications of the machinery concerned, prices, the basis for price-setting, the delivery schedule, the terms of payments e.t.c. In the latter case the FTOs do not mind to use also some customs and norms, internationally recognised in machinery trade, including

"Incoterms". A copy of the contract is to be sent to the customer.

With a view to improve their negotiating technique, the FTOs may have informal meetings and consultations and exchanges of the experience. The negotiating technique is collected and analysed also in the Market Research Institute of the Ministry of Foreign Trade and studied within the training and retraining faciliteies, attached to this Ministry.

CHAPTER THREE

THE CONTRACTUAL DRAFTING

The specific content of the contracts on the machinery import varies widely depending upon the business environment and the goals of a given deal. However, as the fair merchant commissioners, the FTO's always pursue to do their best for a relyable protecting the interests of the Soviet customers, inter alia, through:

- a securing the high technological level of the imports, their timely deliveries and an adequate access to the technical and engineering services concerned;
- a securing the favourable terms and conditions of the deals, including prices and the terms of financing and payments;
- a securing the appropriate means for the dispute settlement;
- a securing the customers interests in the case of the contract transgression or the supplier misconduct;
- a protection from restrictive business practices, particularly that of the transnational corporations.

Specifically, these targets and goals are attained in the following ways:

1. A securing the proper technological characteristics and timely deliveries.

The very foundation to attain these goals is laid down already on the pre-negotiating stage, when the customer is obliged to prepare the exact and clear technological specifications for the machinery and equipment to be imported and then to perform the close examination of the offers recieved. The customer should also to check the text of the contract and, if pinpointing any mistakes or discrepancies herein, to alert the FTO immideately.

No less important operations to this end is the procedure of the inspection, testing and acceptance of the machinery and equipment contracted. Normally, some of their elements or blocks may be inspected and tested abroad, at the supplier enterprise, particularly when and if there is a necessity to control the process of their production as such, the completness of the shipment or to test the pilot specimens. Beside, this permits to prevent expenses and the time loosing, enivetably occuring in the case of delivering substandard or unproperly designed and assembled machinery to the customer. Sometimes, the object for an acceptance is the set of the technological documentation, prepared by the supplier, particularly in the cases of the major complex projects or the supplier involving into the preinvestment engineering and consulting process. These functions are performed by the specialists of the customer, who are sent abroad to be the inspectors or to participate jointly with the suppliers staff in the preinvestment engineering and adaptation of the technology concerned. For example, FTO "Autopromimport" arrange such missions abroad in hundreds annually, including for joint engineering and adaptation and this has been done, as an illustration, in Pittsbourgh (the USA) for some equipment, ordered for Kama heavy truck plant. A preliminary acceptance of the technical documentation is the common practice in FTO "Machinoimport" also.

The relatively simple, standard or non-complete machinery may be normally accepted abroad. However, the final acceptance of the equipment, particularly complete, is performed only after its delivery to the spot, assembling, installing and commissioning. The criteria for this final test are the technical specifications, embodied in the contract and, in particular, the compliance of these machi-

nery and equipment with the guaranteed parameters (the productivity, input, output, quality, etc.) and the technical (and ecological) standards concerned. The parties may wish to use the international standards, if any, but normally the yardsticks concerned are the USSR state standards, which are mandatory within the USSR territory and are of the particular importance, since in the Soviet practice any project, even turn-key, has local contents and thus the foreign inputs have to be technologically compatiable with the domestic machinery and technology involved. In addition, the standartization in the USSR is an instrument to spead up the technological progress and to secure the investing into the contemprary technology only. To this end, the standards are regullarly revised and updated and in 1976-1980 only about 7000 existing state standards are to be updated and about 8000 new ones put in force. The final testing and acceptance are performed by the team, consisting of the officials and specialists of the customer and the FTO with the attendance of the suppliers representatives. Some elements of the imported machinery (for example, vessels under pressure) are to be accepted by the State Technical Inspection (the Gostechnadzor) only.

Entering the contracts, especially on the imports of the complete equipment, the FTO's do persist in the suppliers guaranties covering both the technological sophistication, actual performance and relyability of the machinery concerned. In practice, the supplier may be requested to guarantee such parameters as the productivity, efficacy, raw material and energy consumption ratios, output and its quality, the precision, the technological level, patent noninfridgement etc. The Parties fix also the period of guarantee and the procedure for its implementation (replacement, co-

pensation, modernization etc.). The period of guarantee is started from the data of the commissioning (final acceptance)the equipment in question. The guarantee period as such is negotiable, but some internationally recognized duration yardsticks for the specific types of machinery and equipment may be used as referencies.

It is of particular importance for a planned economy to ensure the timely deliveries of imports and their commissioning in the due course. The deliveries for the large-scale projects are scheduled usually in a parallel with actual construction and this is why the contracts contain normally a fixed deliveries calendar guaranteed by the supplier with narrow permissible intervals. For example, all deliveries of the equipment and technical documentation for the dimethilphtalate plant in Mogilev are to be accomplished by "Krupp-Koppers"(the FRG) in 1979-1980 under rigid calender. Six compressors from "Dresser Industries"(the USA) were to be delivered by quarters calendar and 1600 valves from "Petrolvalves"(Italy)- till December 15, 1978 sharp. The technical documentation for the machinery and equipment concerned are to be forwarded two months in advance.

With the same desire to ensure the economic and technological efficiency of the imports concerned, the FTO's and the customers may request the suppliers technical assistance through training, specialists missions, consulting, engineering, installation supervising and after- sale servicing. For the USSR, having developed technical and economic basis, this assistance is of a supplementary nature only; however the customers may need it, particularly in case of a new or unic technology, large-scale projects and during the period of commissioning the installation concerned. For example, the Finnish engineers participated in the assembling and commissioning smelting equipment at Norilsk mining complex and in 1975 about

2500 foreign specialists were engaged in the construction of Kama heavy truck plant.

The contracts stipulate also a providing customers with spare parts and, if necessary, aftersale servicing, particularly within the period of the quarantee in force. Therefore, FTO "Machinoimport" buy annually spare parts Rbs. 120 million worth and some corporations on a contractual basis set up their servise centres in the USSR with storing the supplies in the warenhouses, belonged to the USSR State Committee on Material and Technical Supply.

The similar quarantees are widespread in the Soviet technology import. Normally, licenses are bought for the period 5-10 years, in machinery industries - 5-7 years and on the complex technological innovations with a long comissioning period - 8-10 years. The rule is, however, that this period has not to be extended beyond the patent validity. The interests of the FTO and the customer are protected also by splitting the initial payment (or lumpsum) into two parts to be paid respectively after an acceptance of the technological documentation concerned and after the achieving by that technology the warranted parameters in practical use.

There is a specific type of the quarantees in geological surveys. By that, the Japanese credit for oil and gas explorations on the shelf of Sakhalin island shall be repaid only if the deposits of a commercial volume are discovered.

The contracts stipulate also the procedure for the implementation of the quarantees agreed upon and the settlement of the damage claims. These cover the defects, detected during inspections or the acceptance, as well as the malperformance during the quaranteed timespan. The settlement may be usually a reparation of the defects concerned, the replacement of the substandard parts or the redrafting

of the technical documentation on the supplier's account. The defects inventory is prepared by the representatives of the FTO concerned or of the customer upon an acceptance abroad or by the customer on the spot of the installation. In the latter case, the suppliers representative (agent) may attend the inventoring procedure and inspect the defects claimed himself.

The machinery and equipment beyong repair are shipped back to the suppliers for his account. The supplier is obliged also to settle penalties for the interrupting in production or the installation delay, if any, as well as the damage taken place for the customer and the third persons. The same procedure is applied, if the delay or damage are resulted from the mistakes or malperformance of the specialists assigned by the supplier to prepare, to arrange and to forward technical documentation, to transport, to install and to commision the machinery and equipment in question or to render technical and consulting services concerned. The penalties rates or volumes are negotiable.

In order to facilitate the settlemnet procedure, the supplier may wish to use the special insurance arrangement, suggested by the Ingosstrakh (the USSR Foreign Insurance Agency) for the import of the machinery and complete plants in the USSR, which may cover all types of risks involved. However, the pattern and volume of the defects and malperformance detected, as well as the supplier's approach to their corrections are certainly taken into consideration by the FTO's and customers concerned for the future business.

In order to speed up and to simplify the implementation of the contractual obligations, the FTO's prefer to have, particularly in case of the large-scale projects, the one general partner (contractor), responsable for the contract as a whole. Therefore, although the Kostomuksha mining complex in constructed with participation of more than

700 Finnish firms and South Yakutia coal basin is developed with inputs from 51 Japanese corporations, the general contractors for the "foreign contents" of these projects are the consortia "Finnstroj" and "Minami Yakuto". However, the FTO's may recommed these general contractors to invite some specific subcontractors, which are well known to the customers and have gained the fair business reputation. The contract with "Camco" (the USA) on the oil-extracting equipment was signed subject to the engaging, as a subcontractor, the French firm "Cie Technip".

2. The contractual technique for the long-term, large-scale economic and technological cooperation. The disputes settlement.

The recent shift in the USSR foreign economic relations from sporadic deals to the long-term, large-scale economic and technological cooperation has already influenced not only the intergovernmental arrangements, mentioned above, but the contractual practice too. As to machinery import, the most typical among these contractual innovations are compensation arrangements (pay-back deals), long-term industrial copperation, as well as the agreements on the technical collaboration with the foreign corporations, advanced in the specific R&D areas.

The compensation arrangements stipulate usually the credit deliveries of the equipment for the large entrprises in the USSR to be paid back in their products. The pay-back share amounts normally about 20-30% of their total outputs during the deals' time-span and this is why these projects are at the same time closely integrated into the domestic economy and able to economize foreign currency and to expand export sector. There are now more than 60 pay-back deals in force and, starting initially in mining , these are nowadays in growing number in manufacturing industries, particularly, chemistry,

too. The time-span for these deals covers usually two-three Soviet five-year plans; some of them, however, are extralongterm and extend beyong the 2000. As illustrations, in 1975 the contract on the compensatory basis has been concluded with Italian "Snia-Viscosa" on the delivery to the USSR the complete caprolactam plant with the annual capacity 80 thous.tons to be paid in 1980-1987 in 225 thous.tons. of this product. The West German shipments of the large-diameter pipes and pipelines equipment in 1972-1975 are paid in the natural gas starting from 1973.

Cotractually, the pay-back deals are regulated by the set of the interrelated agreements on: 1) the extending the Soviet side a credit, normally long-term one; 2) the deliveries of machinery, equipment and technology (and some related materials, if necessary) and 3) the purchasing by the Western side an agreed volume of the products concerned as the compensation. The pay-bck shipments may be addressed, depending on the partners' will, their own enterprises or the third parties. The extrashipments beyong the original annual quotas may be stipulated also on the normal commercial conditions, as well as the partners *options* to buy these products after the expiration of the agreement concerned. For example, the deliveries of the coal, originated from the South Yakutia basin, to Japan are to be started in 1979 and during the next 20 years may amount 104 million tons or $ 4 billion in 1974 prices, that is enough to cover the Japanese $ 450 million credit and the balance will be the Soviet netto-export to Japan.

There is no equity foreign investment within the USSR and all enterprises, constructed on the pay-back basis, as well as all other with "imported contents", are the inalienable property of the Soviet state under its full ownership and control and the foreign corporation may participate in their management on the service agreement

basis, during commissioning period and within specific areas (quality control, services) only. There has been some offers, which suggested the contractor's participation in the performance of a plant delivered on a profit and loss sharing basis and with a limited access to its general supervising. Some ways and means if it is feasible within the USSR constitutional framework have been under discussions among the Soviet specialists too. However, there are no projects like these yet and, moreover, the western partners are recently not repeatedly insistent to launch them.

The industrial cooperation is arranged usually through the subcontracting, joint production, production-sharing between the Soviet and Western enterprises and sometimes extented on the R&D efforts and the marketing. As the experts from the UN Economic Commission for Europe see it, such cooperation in case of the developing new products and processes may save 14-20 months, 50-70% development costs and warrants 93-99% the partners' level in the products quality. The "seeds" agreements for the industrial cooperation are sometimes the licensing contracts with the subsequently extended commercial provisions, since that permits to speed up the reduction of the technology concerned into practice plus to reduce the development costs, thus increasing the licensee profit by 50-70%. Industrial cooperation is now underway in the production of the computers, excavators, power supply equipment, machine-tools with numerical control e.t.c. and, illustrativelly, the Soviet and French coal mines are party equipped with jointly produced coal-cutting combains "ANF" and "ASKW".

At last, as to the technical collaboration, this sometimes plays the pre-approach to the industrial cooperation and the other forms of the long-term business relations. The bulk of these agreements are "diagonal" and concluded between the Soviet State Committee on Science and

Technology and the technologically advanced western corporations for the initial period 5-7 years with a subsequent optional extention or a converting into the arrangements of a commercial type. These envisage the joint research and development efforts, an exchange in experts and information, the procedure for the patenting the common R&D results e.t.c. The intergovernmental basis for these is the network of the agreements on the trade, economic, industrial and technological cooperation, mentioned above and specifying the pertaining areas of interests for both sides. Quantitatively, in 1977 there were 16 such agreements with the West German firms, 19 with British and more than 40 with American corporations.

The due attention to the pre-negotiating homework, the fair and precise committing the FTO's to their contractual obligations, the keen interests of the Western partner to tap the Soviet market and the effective limitations for the transnationals to penetrate inside the USSR, set up by our system of the state property, planned economy and the monopoly of foreign trade, are resulted in a tiny percent of the disputes in the comparison with the total number of the contract concluded. By the same reasons, the FTO's practically never renegotiate the contracts once agreed upon, even long-term ones.

When and if such conflict is the case, the rule of thumb for a FTO is to try to settle it amicably or within a package without any recource to a court or an arbitrage. However, the contracts may refer to an applicable law or the procedure for arbitrage settlement. The law to be applied is normally the law of the country, where the contract has been conluded, but the bulk of the contracts stipulate a resourse to an arbitrage only. The place for this arbitrage may be the Foreign Trade Arbitr _ Commissi of the USSR Chamber for Commerce and Industry, an arbitrage in the defendant's country

or, as an option, the third countries facilities, for example, the Chambers of Commerce in Paris or Stokholm.

3. Price-setting and the terms of payments

The skilful negotiating the contractual prices is the most serious aspect of the baigaining process not only by pure commercial reasons but also since the machinery and equipmet, imported to the USSR are, as a rule, unic and complex and thus often have not any standard or reference prices. Moreover, their suppliers are mainly large Western corporations, including those enjoying market and technological domination and therefore sometimes pursuing the overpricing.

This is why, the FTO s usually persist in an unpackaging the offers invited into as many positions as feasible, as well as do very detailed assessment of the prices offered on the basis of their own data and experience and information, requested from the USSR Trade Representations abroad, the customers, the consultants and the Market Research Institute of the Ministry of Foreign Trade. The latter perform the prices assessment and forecasting, as well as keeps records on the major corporations, dealing with the Soviet FTOs.

Specifically, the FTO's contracting officers and market research units study the market situation, the prices of the comparable deals, the posted and catalogue prices available, the patent situation as well as the limits and opportunities to replace some elements of the package by the domestic contents or imports from the socialist and clearing payments countries, including developing ones, or import from others, more competitive subcontractors.

For the large projects the FTO and the customers normally prepare the "shadow" calculation with which the suppliers offers are to be compared. For that, they unpackage the project concerned for their own, dividing it into several blocks, feasible for a separate evalua-

tion, with a view, firstly, to check to what extent the supplier's unpackaging is correct and, secondly, to try to figure out a residual part of the prices offered, which, having no evident link with any of the blocks analysed, is, presumably, the supplier's profit margin and, therefore, the room for the subsequent bargaining.

Generally, the project costs may be divided into following four blocks: 1/ the costs of eth engineering and technical services; 2/ the costs of the technology, equipment and machinery to be transferred; 3/ the value of the construction, installation and commissioning; 4/ other elements (the credit servicing, insurance, taxes, currency risks e.t.c.). To calculate the "shadow price" for the engineering is not extremely difficult, since the bulk of it is normally performed by the domestic organizations and, as far as the "foreign contents" is concerned, there are same averaged rates for the services like these in the international practice. Similarly, the construction work, installing and commissioning the equipment are performed primarely by the domestic organizations too, including the customer itself and the "foreign contents" herein is limited practically by the salaries and fees of the foreign specialists, which can be estimated with an appropriate precision. The bulk of the "other elements" is also either known or given, except the currency risks (the approaches how to manage them will be analysed below).

Therefore, the main task before the FTO's and the customers is to assess the costs of the machinery, equipment and technology, embodied in the project (the offer). To do this is, sometimes, rather an art, than the science, but there are, however, some model approaches how to tackle this price-setting hard core.

To start with, every project contains some standard types of the mass-produced machinery and their parts, which may be checked in the relevant catalogues. The more unic or complex machinery are

assessed by so called "unit value" of their appropriate parameters. For example, there are some internationally acknowledged weight /output and value/ output ratios for such material-intensive machinery like boilers, cranes, armature e.t.c., which can be taken as the price setting yardsticks. The engines, power supply equipment and chemical apparatus also have their *own* value /output or value/ capacity ratios, such as the cost of one hoursepower, one kwt of electricity, one ton of steam. What is particularly important in the assessments like these, however, is to take duly into account the "hampering cofficient", that is the scale of slowing down these ratios alongside the increasing the unit capacity of the equipment concerned.

These "shadow" prices certainly are aproximative only and this is why they are usually shaped not as "levels", but as the "belts", the suppliers offers to be placed within. Nevertheless, such "shadow calculations" provide the FTO with certain reliable indicators while compiling the "completitive list" and selecting offers worthwhile to negotiate.

In the process of these negotiations, the FTO, as a fair merchant commissioner, is obliged to use any opportunities available (or to be created) in order, through the bargaining, to ensure the most benefical contractual terms and conditions for its client (the customer). As to prices, the FTO ought to try to minimize these in the context of the technical specifications and the delivery schedules prescribed. The typical approaches to this end are an optional replacing the part of the projects "foreign content" for the domestic one; the fixing the advantageous price basis and the payment conditions; the withstanding the suppliers overpricing bias and the enjoying all feasible grounds to obtain rebates. For example, the FTO "Sudoimport" in its contracts with Finnish shipbuilders "Valmet" and "Tellakka" has reserved the right for the deliveries of the Soviet suppl

menting parts, that in 1966-1970 has amounted about 6% and in 1971-1975 - 13% of the total value of the ships ordered and thus allowed to reduce the actual import prices. A skillful bargaining permits also to obtain rebates of the single (on one of the contract positions), combined (multipositions) and progressive (depending on the purchases volume) nature and the latters only may amount about 10% of the initial price quoted. Possessing the well developod transportation and insurance infrastructure, the Soviet FTO's prefer to fix their import prices on the fob basis, thus economizing foreign currency expenditures for the freight and insurance. In order to be protected from the currency risks, particularly because of the floating exchange rates, the contracts are safequarded with special gold or currency risks clauses or a clause, stipulating the adjustment of the initial prices in case of the contractual currency fluctuating beyond the margins agreed upon. The safequarding currency may be the one expected to be the most stable during the contract span or a "busket" of currencies, selected depending on the recent monetary situation.

As to the pattern of the contractual prices, the FTO's, particularly due to the inflation and in the interests of the planned economy, do prefer the fixed import prices without any subsequent alterations. However, bearing in mind the complexity and long-term character of some contracts, particularly on new construction, they can afford, as an exemption, the prices with subsequet fixing or even "sliding prices", although with the rigid sliding limits. To this end, the subsequently fixed price cannot be normally by 2-5% higher than the initial one. In case of the "sliding", the contracts stipulate the basic price and the structure of the alterating factors, as well as the exact methodology for such an alteration. This methodology may be, inter alia, the one, suggested in the "General Conditions for the

Supply of Plant and Machinery for Export, 1955", elaborated by the UN Economic Commission for Europe or may use the shared and weighted evalution of the various production factors (for example, salary - 45%, raw materials - 40% of the costs e.t.c.), resulted in an alteration of the basic price in accordance with their individual dynamics. Nevertheless, even the "sliding prices" normally have their fixed limits for alterations as to the contract worth as a whole (normally not more than ± 20%), its individual fractions (for example labour costs, metals) or the period of time (say, no alterations after six months from the signing data) e.t.c. At last, the FTO's may use also the "mixed methodology", that is with a part of the basic price fixed and the rest of it "sliding" within certain limits.

In case of a transfer of technology the price-setting is more specific and is based on a sharing between the parties the economic effect, arising from the exploitation of the technology concerned with correlations to its rarity, the patent situation and the pertaining international experience. The actual payments may be arranged as the lumpsum, royalties, annual installments or a combination thereof. The FTO agress also with initial payments, if appropriate and deems necessary for the quarantee procedure, selected by the parties. The initial payment may be either specified in the contract separately or credited to the subsequent install ments. The costs of the technical assistance, training and consulting concerned, if any, are normally specified separately.

Likewise in the normal international practice, the Soviet machinery imports are credited on the basis of the state, bankers or suppliers credits or a combination thereof . As an illustartion , Japan has extended to the USSR the long-term $ 1050 million state and bankers credit for the procurement of the machinery and equipment for

the development of the gas deposits and the coal basin in Yakutia and the forest resources in Far East. Totally, the foreign credits extended for the period of the Soviet X five year plan amounted $10 billion. This borrowing is centralised by the USSR Bank for Foreign Trade (the Vneshtorgbank), which then allocates these sums for individual deals.

Normally, the Vneshtorgbank and the FTOs prefer to use the state credits as more favourable in terms and the US Eximbank credit for Kama heavy truck plant was rated, for example, at 6% only. However, the state funds cover usually only a fraction of the deal and are supplemented by the credits from private sources and their consortia. To this end, the US$23 million credit for oil equipment was arranged on the parity basis by the Eximbank and the private consortium, consisting of "Franco-American Co","Industrial National Bank","Indiana National Bank","Hartford National Bank and Trust","First National Bank of Memphis","Capital National Bank" and "First Wisconsin National Bank". Before the adoption of the discriminatory credit legislation in the United States in 1974, the machinery import transactions in the US-Soviet trade were financed by 45% through the Eximbank, by 45% - private interests and the rest normally was paid in cash. The French and Italian credits serviced normally up to 85% of the contractual price with the cash payment for the rest 15%.

The debt servicing in the Soviet practice is effected, as a rule, by annual (semiannual) installments with certain grace period after the commissioning the equipment concerned. As an illustration, the Vneshtorgbank has started to service the credit, extended by the Eximbank and "Chase Man hattan" in 1972, in October 1977 by 24 equal semiannual installments with the first 12 for "Chase Man hattan"

The credits are also the normal component in the compensation deals, when they are paid in kind by the products of the enterprises concerned or other goods agreed upon. For example, the complete dimethilphtalate plant in Mogilev, to be delivered in 1979-1980 by West German "Krupp Koppers", shall be repaid in this product starting from 1981, the man-made fibers plant under construction with participation of the West German interests - in these fibers and cotton. The volume of back payments is specified in contracts in the quantities of products to be delivered, calculated in recent world market prices with the future adjustments to their dynamics. This way Finland is entitled to be compensated for her inputs into Kostomuksha mining complex with 1,2 million tons of iron pellets in 1983-1990, Italy - in 100 billion c.m. of natural gas for her pipeline equipment and pipes, Japan - with 8 million c.m. of timber products for her $160 million credit for the development of Far East forest resources.

Sometimes the Western partners, particularly those are not the end-users of the payback products themselves, persist in giving them the rebates similar to that of given to the agents or middlemen engaging in a reselling. Nevertheless, the FTOs in any case are guided merely by the world market prices. The contractual payments are serviced centrally through the Vneshtorgbank, which has the correspondent ties with 1658 financial institutions abroad.

4. The marketing and trade promotion.

An entering any market needs the promotion, the Soviet market not excluded. The relevant technique, allowed to the foreign interest within the USSR, is the cluster of ways and means to approach the FTOs and the customers both directly and indirectly. Indirectly this

can be done by advertising through FTO "Vneshtorgreklama" in the specialised press. However, as far as the machinery and equipment are concerned, the promotion technique is rather specific one.

One of its arm, for example, is the network of the agreements on the scientific and technological collaboration , concluded by the State Committee on Science and Technology with technologically advanced foreign firms. The Soviet side on the operational level is represented herein by the Ministries, production associations (scientific-production associations) and enterprizes and R&D institutions That creates a precommercial setting, which then may be developed into the industrial cooperation or other forms of business deals. In fact,"Fiat", before being awarded with Togliatti order, has started from an agreement like these.

Another chance is the Soviet purshasing delegations travelling abroad. They are staffed usually by the top foreign trade and industrial officials and matched with the process of foreign trade planing. For example, right before the X five - year plan such delegation visited the Great Britain, negotiating with "Rollce-Royce","Lucas", "ICI","Davy-Levy","Stone Platt" and others. These officials are the frequent visitors to the fairs and exibitions abroad and in the USSR and more than 200 such events are organized annually in variuos Soviet cities by FTO "Expocenter". In average, the FTOs officials spend for this business about 15% of their working time.

The foreign corporations may be allowed to establish their Representative offices within the USSR. These have proved themselves instrumental and, in particular, after their establishing Swedish "Unson" has managed to increase its business turnover with the USSR by 30%,"Mannesmann"(the FRG) - two times,"Finsider"(Italy) - three and "Valmet"(Finland) - four times. However, the marketing efficacy

of these offices should not be overestimated. In fact, under current regulation, these can be opened with the main goal to facilitate the proper implementation of the existing contracts, may approach the customers through the respective FTOs only and the permissions issued are valid two years only(with possible extention, but not for longer than the contract timespan). These offices are obliged to report to the Ministry of Foreign Trade quarterly on their business performance, to pay 40% income tax and the permissions granted may be annulated in the case of overstepping their functions or an activity, incompatible with the host country interests. Consequently, these offices play rather liaisons, than the marketing agents and have nothing in common with the affiliates, the transnationals have in non-socialist countries.

The permissions concerned are issued, further on, not automatically, but on the ad hoc basis and granted normally only to firms, gained the positive business reputation in the USSR or entering long-term arrangements, including pay-back deals. For example, American "Control Data" has been granted this permission because of its being a partner of the Soviet FTOs since 1968, having $25million orders and the assignment to install in the USSR two "Cyber-172" computer systems. Similarly, "Abbot laboratories" was accredited after its concluding with FTO "Technopromimport" a large-scale contract on the baby food plant.

At last, the trade promotion is among the functions of the mixed intergovernmental commissions mentioned above and mixed Chambers of Commerce(Soviet-French, Soviet-Finnish), set up on the level of business circles. As an illustration, the US-USSR Trade and Economic Council (with 280 corporations membership from the US side)

has its offices in Moscow and New York and arranges business contacts and exchange of information. In particular, during its last session in November 1978 the US side has tabled 28 offers for various projects and for the equipment for the Olympic Games-80.

5. The repulsing restrictive business practices.

Even having the keen interest to be admitted to the Soviet market and being aware of the strong legal and institutional positions, possessed by the FTCs, the large western corporations, transnationals in particular, are nevertheless eager sometimes to try to impose upon the Soviet side the contractual conditions unilateraly beneficial for the suppliers. Being closely interrelated with the political discrimination on the governmental level, such restrictive business practices show themselves in attempts of the bidding conspirances, refusals to deal, a prescribing exclusive sources of supply, cartels, restrictions on the transfer of technology, the requesting exemptions from the Soviet law e.t.c.

For example,if the prices magnitude in foreign offers for the same machinery in the Soviet practice is normally not more than 30%, there are, nevertheless, some outstanding offers by 1,5-2 times higher than the average"price belt". This way Japanese bids on equipment for Wrangel Bay harbour were not consistent with the specifications tendered and, moreover, with the provisions of the USSR Maritime Register, as well as the prices quoted and credit terms were contradictory to the Soviet-Japanese agreement on this project. Similarly, the Japanese corporations have tried to overprice the equipment for the production and trasportation of the woodchips.

Bargaining over the technical services, transnationals often try to reserve the exclusive rights for aftersale service, repairs

and modernization for their own, to keep khow-how concerned as "classified" e.t.c. In the transfer of technology, they sometimes persist in restricting exports, volume of production, number of models, products lifecycles, in paying royalties even after the expiring the patents concerned, in a unilateral transfer of improvements, in imposing minimum payments and so on.

The FTOs face sometimes the refusals to unpackage the offers, the demands for the partial ownership and control over the cooperation projects within the USSR e.t.c. As an illustration, some Canadian firms previously tabled non-competitive bids, inconsistent with the original requests and the modalities of the Soviet foreign trade. The FTOs repulse the attempts like these, fighting against any penetration of the restrictive business practices into contractual texts.

In particular, they while compiling the competitive list, cut off the bids beyond the normal ("shadow") price belt. The limits on the exports under licensing agreements are afforded as exeptions only, particularly if and when the licensor has within the markets in question the patents or other relevant industrial property rights in force, sold there exclusive licenses to third parties or operate therein as the established trader himself. The FTOs deny any limitations on the volume of production, prices, minimum payments and the transfer of improvements is allowed on the mutual basis only. The woodchips transpotation ships, offered on restrictive credit terms by Japanese firms, were paid in cash. Meanwhile, the Soviet diplomacy actively take part in multilateral efforts to eliminate restrictive business practices, including the elaboration within the UNCTAD of " A Set of Rules on the matter and An International Code of Conduct on the Transfer of Technology.

At last, it is self-evident, that transnationals, pursuing restrictive business practices towards the FTOs, take serious risks to undermine their business reputation within the Soviet markets with all implications concerned, because all detected cases of such practice are recorded.

CHAPTER FOUR.

THE SOVIET EXPERIENCE AND THE INTERESTS OF DEVELOPING COUNTRIES.

Summing up, the bargaining power of the Soviet FTOs in their relations with western manufacturing corporations, including transnationals, is basically rooted in the very system of our economy and its modalities to govern foreign trade; in the integration within the CMEA; the level of our economic development achieved and, at last, in the size of our national market and the negotiating experience gained. These do influence both the process of bargaining and contractual terms, providing the FTO's and the domestic customers with adequate opportunities to gain an access to the technological and financial patentialities of the large corporations, transnationals included, and simultaneously to eliminate, to an appropriate extent, the notorious dangers and concerns to deal with them.

One may see, that some of our leverages are certainly unic and belonged to the developed socialist economy only. However, others, subject to a specific adoptation, could be of interest for the developing nations too, particularly those pursuing a planning policy and state trading.

In addition, all flows of the contemporary international trade are intertwined and this is why some avenues and forms of the East-West trade in machinery and equipment are benefical for the developing countries not only in terms of the legal and operational "software", but also directly, giving them the windows to associate themselves with the transactions and arrangements concerned, particularly through the widespreading tripartite industrial cooperation.

1. The Soviet experience: crossreferences to the situations in developing countries

The politicians and scolars are recently almost unanimous in describing the major problems, the developing countries are wrestling with, particularly in the area of machinery import. These are, in brief, the very necessity to further the industrialization; the choice of an appropriate technology and the industrial specialization; the lack of exports proceeds to meet the import requirements; the restructuring world economic order; an effective control over the national recources, foreign capital invested and transnationals; the repulsing the restrictive business practices; the promotion of the cooperation between developing countries; the expansion and normalization of the transfer of technology e.t.c. To this end, there is already a large body of the recommendations, adopted by the various UN organs, how to make the developing countries able to overcome, at last partly, these difficulties on the national, regional and international level. In addition, many individual countries refer frequently to the national experience gained, trying to transplant and to apply it in the relevant situations. The Soviet experience concerned - from the state system till commercial techicalities - is availeble for the developing countries too. In particular (and leaving, certainly, the final choice to the individual countries and governments), it appears to be worthwhile to draw the attention to the following findings, arisen from the crossreferences between the Soviet practice described above and the developing countries recent concerns.

1. It is self-evident, that, on the contrary to the USSR, no developing country can now meet its requirements in machinery mainly by the domestic outputs, leaving for imports a secondary place only. However, the USSR sixty years ago was in no better position, than the bulk of devel

ping countries nowadays. This is why, every country eager to be strong economically ought to further an industrialization, shaped depending upon the national recources and priorities. It is particularly important, to this end, to choose an appropriate industrial specialization with a view to rationalize the machinery imports and strive to have a local content in any imprted project regardless its complexity.

2. The most reliable way to achieve these is an import planning as an integral part of a national planning. The efficiency of the Soviet planning concerned is rooted, of course, in our socio-economic environment, that are the public property and the centralized economic management. This environment is not unic and is transplantable to the developing soil, if a country may wish so, in the form of the socialist orientation, which some developing countries have already chosen. However, an import planning may be useful even in a mixed economy, typical nowadays for the bulk of developing nations. It allows to economize the scarce currency, to choose an approproate technology, to concentrate imports on the national priorities, to subject it to the domestic decisions.

3. With all other conditions equal, this planning, whatever wise it could be, may be more successful, if it relies on the self-fledged public sector, operating in foreign trade. In the USSR the foreign trade is the state monopoly and some developing countries manage it more or less in the same way. The others prefer herein a regulated private setting. However, that is of a common significance, the State should possess its own foreign trade machinery able to shape the pattern of imports, to enforce foreign trade regulations and to repulse any outside pressures, hostile to or inconsistent with national goals. By other words, any effective foreign trade planning needs a self

fledged state-trading.

4. As an option, this state-trading may be effected through the FTOs - like commercial instruments. The individual countries may prefer a various degrees of dispersing in import decisions, but it is evident, that specialized organizations are the most suitable to centralize the purchases and thus to make a country a "bigger byuer", to prevent foreign suppliers from playing /local/ customers against each other and to repulse restrictive attempts with all belevant implications for a country bargaining power.

5. A part of the Soviet experience, feasible to be applied, is the diversification of the sources of machinery imports and their combaining in a competitive way. The developing countries are now over depended upon the narrow circle of the large western corporations, originated from a few biggest western countries. This assymmetry may be corrected by an approach to the alternative sources of supply. These may be the socialist countries, the developing countries themselves, the smaller western countries and their medium-size business. Indeed -, the USSR is quite satisfied, buying in the socialist countries about 2/3 of its machinery imports. The X five-year plan is being implemented notwithstanding a decreasing machinery imports from the USA and, on the contrary, we undertake massive equipment purchases from countries like Finland, Austria, Sweden, Belgium e.t.c. and medium-size firms (which, as practice shows, are not necessarily less advanced technologically, than the notorious giants) are our numerous subcontractors. Dealing with these more actively, the developing countries may stimulate competition and again be the "bigger buyers", because of the smaller size of their partners, and the latters keen interest to gain orders, which the giants can neglect or ignore.

6. This is true, that the USSR in its development relies widely on

the socialist economic integration within the CMEA - an environment the developing countries do not possess. However, the CMEA status and practice are flexible enough and can provide the interested developing countries with some "windows" to participate in certain integration schemes. Such arrangements are in force, for example, with Yougoslavia, Mexico, Iraq, Ethiopia, Laos e.t.c. Besides, many groups of developing countries pursue their own regional integration, providing them with growing machinery outputs and this is why it is so important to implement properly the numerous UN recommendations, facilitating the process of industrialization and of the cooperation among developing countries, including production-sharing and setting up the regional centers for the development and transfer of thechnology.

7. A subjecting machinery imports to national goals depends heavily on the regulation and control of the transnationals activity within the national territory. In the USSR these are not allowed to make any domestic investments or penetrate into planning and management. Many developing countries are more permissible, but in any case it is worthwhile to have a representative body of the enforceble legislation (tax, company, industrial property, antitrust laws e,t.c.) to deal with the transnationals effectively. The regional legislations and regulations may be much to the point, as well as a keen necessity to speed up the elaboration (as international coventions or model laws) of A Code of Conduct for the Transnational corporations, An International Code of Conduct on the Transfer of Technology and A set of Rules, concerning the restrictive business practices now under discussions within the UNCTAD and the UN Commission on TNCs.

8. The USSR manages the large network of the bilateral trade treaties and the programmes for cooperation, whereas the developing countries rely rather on multilateral instruments and institutions. This appears to be a sort of assymmetry too, because the existing multilateral setting

cannot duly protect, as the Arusha Declaration stressed, the special interests of the developing countries. This is why, it would not be superfluous to activate the bilateral instruments in the developing countries trade policy. Simultaneously, new efforts ought to be undertaken with a view to democratize the existing institutional machinery as a part of a restructuring international economic relations on a fair and democratic basis. The long-term cooperation agreements may be useful for all developing countries - bigger and smaller - having an economic planning , because these may facilitate to their deeper involving into international division of labour on a manageble basis, setting up new industries and provide the latters with foreign markets.

9. This bilateral legal network, inter alia, may provide the developing countries with ways and means to repulse the restrictive business practices, which the existing multilateral documents lacking. Much could be done to this end also through a continuing monitoring and recording such practices and their protagonists on the national and international level, that can be used as both a leverage in the moral persuation and a ground for legal actions. At last, a repulsing these practices may be delegated to the regional integration institutions.

10. The Soviet experienshows, further on, the very significance of the precontracting homework in the working out the specifications for orders to be placed . This ensures the adoptation of imports to the domestic needs, that foreign - initiated offers and investment enivitably lacking. The same experience shows also a paramount importance of the collecting,processing and retrieval on request the pertaining commercial information, which represents a bargaining factor as itself. In developing countries it might be done through the indigenous consulting facilities and the special data

banks on the national or regional levels.

11. Under concrete circumstances, the interested developing countries may use any of the aforementioned Soviet negotiating and contracting techniques suitable for the case. However, it appears of ar importance to stress the advantages of the centralized insurance and credit servicing, that could enable the developing importers, likewise the Soviet FTOs, to attain the favourable contractual conditions. Similarly, there are no visible reasons, why the developing countries should not try to practice the pay-back arrangements, that allows to expand imports beyong the recent export proceeds and do not create the well known problems in debt burden. A feasibility of these arrangements between developed and developing nations is proved by the recent Soviet-Indian pay-back deal on alumina project in Andhra Pradesh.

12. At last, with a view to aviod the ad hoc drafting [illegible] the common contractual provisions, the developing countries and, particularly, their state-trading agencies, could elaborate their own model contracts or use more widely the manuals, elaborated by the international organizations, particularly, by the UN Economic Commission for Europe, which have proved themselves instrumental in East West Trade (see Annex 8).

It is understood, of course, that all these findings are suggested by the author in his personal capacity and this is up to the developing countries concerned how to react to them, while facing the specific local conditions.

2. Some practical implications and opportunities

Meanwhile, the management of the Soviet machinery import from the West is, apparently, not simply an abstract models, the developing countries may wish to follow. In many aspects, it provides these also

with the tangible opportunities to expand their own exports, to further industrialization, as well as to strengthen their bargaining powers vis-a-vis the western corporations, including transnationals.

To start with, a part of the Soviet import of the machinery and equipment is installed at the enterprises, which are set up or modernized with a view to process the goods once imported from the developing countries, such as ores, agricultural raw materials and tropical foods and thus augments the Soviet domestic market for these products. For example, some western machinery were used to equip two factories in Kuibyshev and Trostianez, processing the cocoa-beans, with annual capacity of 60 thous thons. Similarly, a part of such imports is addressed the Soviet export-oriented enterprises as modernization inputs or subdeliveries and therefore expanded our abilities to offer a wider range of the competitive products for export, including that of to developing countries and for the technical assistance rendered to them.

For example, FTO "Techmashexport" sells to these countries the power supply equipment, assembled with some elements, subdelivered by Swedish "ACEA" and Finnish "Kontram". The FTO "Machinoexport" equips mine lifts exported to Latin America with electronics from Austrian "Elin Union". The Soviet-Western scientific and technical cooperation is also partly oriented in this direction and coke ovens, mutually designed by FTO "Licensintorg" and Italian "Italimpianti", have been installed in Brazil.

The practice like this creates for developing countries additional opportunities to enjoy the alternative sources of machinery supply, to diminish their one-side assymetrical dependence from Western markets and the transnationals, dominating therein.

The positive implications of the Soviet machinery import from

the West for developing countries manifest themselves also in the domain of the development assistance. Its further increment relies, to a large extent, on the Soviet export sector, absorbing western machinery as well. Moreover, there is a growing practice of joint construction of the industrial and other enterprizes in developing countries, when the Soviet FTOs, playing the general contractors, obtain a part of the equipment and technology concerned from Western subcontractors or vice-versa. As an illustration, FTO "Technopromexport" have invited West German "Deutsche Babkock" to supply boilers and technical expertise for power station is being erected in Esfahan (Iran); FTO "Tsvetmetpromexport", being the general cotractor for the pipelines network to be laid down in Nigeria, has engaged a British firm as a consultant and announced tender for subdelivering pumps, bidded by West German, Italian, Belgian and French interests.

With the positive experience gained, such subcontracting is effected on the basis of long-term cooperation agreements between FTOS and Western corporations oriented to the third markets. These agreements are in force, for example, between FTO "Techmashexport" and West German "Otto Wolf" (subdeliveries of air-separation equipment), Swedish "ACEA" (parts for power transmission lines), Finnish "Rautaruukki"(equipment for blast furnaces) e.t.c. By other words, for deveping countries it is a way to obtian the western machinery from an alternative sourse and on the favourable conditions of the Soviet development assistance.

What is the most remarcable, however, is that, while playing the the general contractors in developing countries, FTOs usually invite as their subcontractors not only foreign, but also domestic business, thus converting the projects concerned into the tripartite industrial

cooperation. For example, FTO "Tsvetmetpromexport" in Nigeria awarded local firms with orders for preparing the construction cite and clearing jungles. In Marocco FTO "Energomashexport" has constructed power station "Mochammedia" with participation of West German "EWT" Hungarian "Transelectro" and local "STRA". Similarly, these subcontracts sometimes are distributed among other developing countries and FTO "Tjazhpromexport", when erecting the steel mill in Nigeria has awarded, alongside with enterprizes from the socialist and western countries, the significant subcontracts to Indian heavy machinery plant in Ranchi. All these make the developing countries able to expand their indigenous technological and industrial capacities, to increase employment and export, to gain expertise in the foreign bidding, construction and in the international competition. This is why, such a practice is treated positively in many UN documents, including the UNCTAD Resolution 95(IV).

Pursuing the implementation of these resolutions, the Soviet Government does actively put forward the offers for the tripartite cooperation in the long-term agreements and programmes with Western countries and within the framework of the mixed intergovernmental comissions, supervising these. The options to cooperate on third markets are now embodied in thse programmes and agreements between the USSR and Austria, the Great Britain, Finland, France, the FRG e.t.c. "The experience gained", said the Soviet-Finnish programme for cooperation till 1990, "as a result of cooperation in constructing projects and the possibilities provided by it can be used on the basis of the international division of labour on the markets of third countries as well". The detailed "blueprint" for this cooperation is contained in the Final Act of the European Conference on Security and Cooperation, that once again shows its constructive character for all flows

of the contemporary international trade.

In practical way, the problems of the tripartite cooperation have recently been under discussion during annual meetings of the Soviet-Finnish and Soviet-Austrian mixed intergovernmental comissions. There is a growing interest toward it among developing countries too. The Soviet-Indian long-term programme for cooperation, signed in March 1979, has legalised this practice, stipulating joint actions of the Soviet and Indian enterprizes on the third markets, including joint bidding, construction, subcontracting and the Indian coke ovens, cranes, electrolizers, chemical equipment have already been ordered for the Soviet-sponsored projects in Sri-Lanka, Nigeria, Cuba, Yougoslavia and Bulgaria.

At last, these implications and opportunities are instrumental for the very process of a restructuring the international economic relations on a fair and democratic basis now under way. For example, the tripartite cooperation, being attended simultaneously by both developing and the socialist countries, does allow the formers, as the practice show, to attain more favourable contractual conditions for machinery aquisitions, than a direct import from the West. To be specific, this permits to conclude these contracts on a mutually favourable basis, to cover the sectors, which otherways would be neglected or even ignored by some Western interests (the public or nationalized sectors, for example), to use more intensively the local indigenous technology, industrial facilities and labour, to pepulse more effectively restrictive business practices e.t.c.

As an illustration, through the Soviet general contractors, Iraq has managed to obtain the Western technology for a development of North Rumeila oilfields, which, after the nationalisation, were refused to be assisted by the "Seven sisters". The joint bidding by FTC "Tjazhpromexport" and Finnish "Rautaruukki" for the order on blast

furnaces shop in Venezuela has helped to make the competition between the bidders more keen. Moreover, the enterprises, constructed trilateraly, are placed under ownership and control of the host developing country and are not imposed upon the unreasonable restrictions, including on exports and the transfer of technology.

Summing up, the experience, gained by the USSR in the machinery import from the West, may be of an use and of interests for developing countries both in its legal, institutional and contractual setting and through the practical business opportunities and arrangements, conducive to the development.

ANNEX 1.

The Soviet import of machinery and equipment, 1946-1976.

(Rbs. million)

	1946-1965	1966-1970	1971-1975	1976	Total	%
All machinery and equipment	20 372	15 489	28 918	10 427	75 206	100,0
including:						
Metalworking	1 189	1 351	3 014	976	6 35o	8,7
Electrotechnical, Power supply, Electronics	1 995	837	1 396	468	4 696	6,2
Mining, Metallurgical	982	908	1 678	781	4 349	5,8
Light and Food Industries	1 6o2	1 3o4	1 768	683	5 357	7,1
Chemical, Paper, Wood-working, Construction	2 288	1 777	3 oo6	1 6o1	8 672	11,5
Agricultural Machinery	212	51o	1 373	462	2 557	3,4
Transport	7 3o2	4 456	6 658	2 2o4	2o 26o	27,4

Source: "Foreign Trade", no. 11, 1978.

ANNEX 2.

The long-term agreements on economic, industrial, trade and technological cooperation, concluded by the USSR with Western countries for the IX and X five year plans period.

Austria	1973- 1983
Belgium and Luxemburg	1974-1984
the Great Britain	1974 - 1984
Danemark	1975 - 1985
Italy	1974 - 1984
the Netherlands	1975 - 1985
Norway	nonlimited
the United States	1974 - 1984
Finland	1971 - 1981
France	1971- 1981
Germany, Federal Republic of	1973 - 1983
Sweden	nonlimited

The long- term programmes on economic, trade, industrial and technological cooperation

Finland	till 1990
France	till 1990
Germany, Federal Republic of	till 2003
Canada	under elaboration